

Message Text

SECRET

PAGE 01 PHNOM 08857 240520Z

13

ACTION EA-14

INFO OCT-01 ADP-00 ABF-01 IGA-02 L-03 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 CIEP-02 OMB-01 RSR-01 /088 W

----- 039293

R 240416Z AUG 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 2716

S E C R E T PHNOM PENH 8857

FOR STATE/AID

E.O. 11652; GDS

TAGS: EAID, EFIN, CB

SUBJECT: ECONOMIC POLICY MEASURES

1. THIS MESSAGE PROVIDES WRAPUP OF EVENTS CONCERNING ECONOMIC MEASURES DURING PAST TWO WEEKS.

2. MEASURES PROPOSED BY IMF AND MISSION HAVE BEEN SUBJECT OF INTENSIVE DISCUSSIONS BETWEEN MISSION AND ECONOMIC MINISTERS, BNC GOVERNOR AND IMF RES REP. THESE HAVE COINCIDED WITH PARALLEL DISCUSSIONS ON GKR SUPPLEMENTAL BUDGET. GKR HAS NOT ACTED WITH AS MUCH SPEED AS WE BELIEVE IT SHOULD ON CERTAIN MEASURES, AND AS WASHINGTON IS AWARE, WE HAVE BEEN SITTING ON 2.5 BILLION RIEL COUNTERPART RELEASE PENDING SATISFACTORY ACTION BY GKR IN RAISING ELECTRICITY AND WATER UTILITY RATES. PROGRESS IS BEING MADE. ON AUGUST 17, THE GKR ANNOUNCED 400 PERCENT INCREASE IN ELECTRICITY RATES AND 200 PERCENT INCREASE IN WATER RATES EFFECTIVE RETROACTIVELY AS OF JULY 1, AND WE HAVE NOW RELEASED THE 2.5 BILLION COUNTERPART. SOME OF THE IMPORT MEASURES WE HAVE BEEN ADVOCATING HAVE BEEN ADOPTED. THE EXTREMELY LIBERAL CREDIT PROVISIONS WHICH HAD BEEN IN EXISTENCE FOR CIP FINANCING WERE ELIMINATED AND CREDIT FOR CIP IS NOW ON THE SAME TERMS AS ESF. ADVANCE IMPORT DEPOSIT REQUIREMENTS HAVE BEEN REDUCED TO 100 PERCENT FOR ESF, TO 10 PERCENT FOR U.S. SOURCE COMMODITIES UNDER CIP AND TO 25 PERCENT FOR NON-

SECRET

SECRET

PAGE 02 PHNOM 08857 240520Z

U.S. SOURCE COMMODITIES UNDER THE CIP.

3. WE ARE MAKING EVERY EFFORT TO GET EXCHANGE RATE UNSTUCK AND HOPE THIS WILL OCCUR EARLY NEXT WEEK. AT THE SAME TIME WE EXPECT THAT EXCHANGE RATE DIFFERENTIAL ON CIP COMMODITIES WILL BE REDUCED FROM 30 PERCENT TO 20 PERCENT. WE ARE ALSO PURSUING INCREASING INTEREST RATES REDUCING CUSTOMS EXCEPTIONS AND FURTHER REDUCING SUBSIDIES.

4. ACTION ON FOREGOING MEASURES HAS BEEN TO SOME EXTENT DELAYED BY GKR CONSIDERATION OF ITS COLLECTIF OR SUPPLEMENTAL BUDGET. PROPOSAL TENTATIVELY APPROVED BY COUNCIL OF MINISTERS WOULD HAVE PROVIDED FOR A TOTAL BUDGET EXPENDITURE LEVEL OF 50.5 BILLION RIELS FOR THE 1973 BUDGET, AND MORE IMPORTANTLY WOULD HAVE INCREASED THE UNCOVERED DEFICIT OR INFLATIONARY BORROWING FROM BNC FROM 10 TO 17.6 BILLION RIELS. ACCORDING TO OUR MONETARY CALCULATIONS, THIS WOULD MEAN A MONEY SUPPLY INCREASE SIMILAR TO LAST YEAR'S, THAT IS IN EXCESS OF 40 PERCENT. WE HAVE TAKEN THE POSITION THAT AN INCREASE IN THE UNCOVERED DEFICIT OF THIS AMOUNT WOULD FURTHER AND DRAMATICALLY INCREASE THE RATE OF INFLATION.

5. OUR CURRENT BEST READING OF THE MONETARY AND PRICE SITUATION IS THAT THE RATE OF INFLATION IS NOW 160 PERCENT AT AN ANNUAL RATE.

IN THE FIRST SEVEN MONTHS OF THIS YEAR PRICES ROSE 75 PERCENT. NORMALLY PRICES ARE STABLE IN THE EARLY PART OF THE YEAR. INDEED, IN THE SIMILAR PERIOD OF 1972, THE PRICE INDICES RECORDED A DECLINE OF 10 PERCENT. OVER THE PAST FEW YARS THE RATE OF MONEY INCREASE HAS BEEN EXCESSIVE, BETWEEN 40 TO 50 PERCENT IN EACH OF THE LAST TWO YEARS. PRICES HAVE LAGGED BEHIND, AND THERE HAS DEVELOPED A TREMENDOUS INCREASE IN LIQUIDITY. WHILE SUPPLY SHORTAGES HAVE PRECIPITATED THE RECENT SHARP PRICE INCREASES, THE LIQUIDITY OVERHANG HAS PROVIDED THE EXPLOSIVE FUEL FOR THE CURRENT HYPER-INFLATION.

6. IF THE HYPER-INFLATION IS TO BE SLOWED DOWN AT ALL, IT WILL OF COURSE BE NECESSARY TO SEE THAT THE SUPPLY OF ESSENTIAL COMMODITIES BE MAINTAINED, AND THIS WILL CONTINUE TO REQUIRE EXTRAORDINARY EFFORTS WITH REGARD TO DOMESTIC AS WELL AS IMPORTED COMMODITIES. BUT NO LESS IMPORTANT, THE RATE OF MONETARY EXPANSION THIS YEAR MUST BE LESS THAN LAST YEAR. THEREFORE, WE HAVE TAKEN THE INITIAL POSITION WITH THE GOVERNMENT ON THE SUPPLEMENTAL BUDGET THAT THE

SECRET

SECRET

PAGE 03 PHNOM 08857 240520Z

AMOUNT SHOULD BE NO GREATER THAN INCREASED REVENUES BROUGHT ABOUT BY ECONOMIC REFORM MEASURES AND WHATEVER INCREASE IN COUNTERPART MAY BE GENERATED.

7. BUT PRESSURES FOR BUDGET EXPENDITURES, HOWEVER, ARE SO GREAT THAT WE WILL NOT BE ABLE TO HOLD TO THIS POSITION. IT IS THEREFORE CLEAR THAT IF THE INFLATION IS TO BE CONTROLLED, THEN THE UNCOVERED BUDGET DEFICIT MUST BE CONTAINED BY INCREASING THE AMOUNT OF MONETARY

ABSORPTION FROM THE ESF AND CIF PROGRAMS BY FURTHER AND SUBSTANTIAL DEVALUATION OF THE RIEL. WE HAVE LONG BEEN AWARE THAT THE GOVERNMENT AND IMF RES REP HAVE VIEWED THE EXCHANGE RATE AS A DEVICE FOR RATIONING FOREIGN EXCHANGE (AND ONLY THEN WHEN AN ACUTE SCARCITY IS STARING THEM IN THE FACE) AND MAINTAINING IMPORT PRICE STABILITY. IT IS OUR VIEW THAT THE GOVERNMENT MUST NOW ALSO USE THE FOREIGN EXCHANGE RATE, IN EFFECT, AS A DEVICE FOR TAXING IMPORTS AS A COUNTER-INFLATIONARY MEASURE, AND THE GKR MUST MOVE THE RATE MORE STEADILY THAN THE GKR HAS BEEN WONT TO DO.

8. OUR DISCUSSIONS WITH THE ECONOMIC MINISTERS ARE CONTINUING AND WE WILL KEEP WASHINGTON ADVISED AS EVENTS UNFOLD.
SWANK

SECRET

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 24 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PHNOM08857
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS SWANK
Errors: N/A
Film Number: n/a
From: PHNOM PENH
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730817/aaaaamco.tel
Line Count: 128
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 21 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Nov-2001 by shawdg>; APPROVED <03-Jan-2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC POLICY MEASURES
TAGS: EAID, EFIN, CB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005